



October 11, 2016

Chairman John Frullo and Members  
House Insurance Committee  
Texas House of Representatives  
Austin, Texas

Re: Credit for Reinsurance Model Act

Mr. Chairman and Members of the Committee:

My name is Christopher McClellan, and I am the President and Chief Executive Officer of the Redpoint Insurance Group, LLC. (Redpoint). Redpoint has offices in Austin and Dallas. Redpoint has two principal insurance operating entities – Redpoint County Mutual Insurance Company and Redpoint Workers' Compensation.

Redpoint County Mutual is a Texas domestic insurance company writing private passenger and commercial automobile insurance in this state. Redpoint Workers' Compensation is a Texas domiciled managing general agent handling all aspects of workers' compensation insurance in Texas. We are currently seeking to acquire another insurance carrier in order to offer insurance products in states other than Texas. Our operations were located in Austin, in part, due to the proximity to the Texas Department of Insurance.

I offer this testimony today regarding the adoption of the Credit for Reinsurance Model Act (Model Act) recently adopted by the National Association of Insurance Commissioners (NAIC) as part of its state accreditation process. As undoubtedly discussed by other parties before the Committee, this Model Act creates a new reinsurance market with a select group of highly-rated reinsurance companies. These reinsurers must satisfy various financial and operational standards set forth by the NAIC in the Model Act but, which more importantly to Redpoint, would be reviewed and adopted by the state of Texas. Thus, the regulation of this proposed law and the resultant new market, will rest with the Texas Legislature and the senior regulator of the Texas insurance market, the Texas Commissioner of Insurance.

Redpoint supports the Model Act for several reasons.

### Competitive Market

First, Redpoint desires to have the same opportunities and choices available to its counterparts domiciled in other states. Redpoint is a small Texas domestic insurance organization specializing in automobile insurance. As such we operate in a very competitive market against insurers, many of which are domiciled in other states. Those competing insurers (if domiciled, for example, in California, Florida, or New York) have access to a more robust reinsurance market – with choices and flexibility unavailable to Texas domestic insurers. This situation creates a competitive disadvantage for Texas domestic insurers. Thus, Texas law currently handicaps Texas companies.

As Redpoint moves forward with its acquisition of another carrier, the decision of where to domesticate the company arises. Naturally, the regulatory environment of the potential state(s) in which to domicile the company affects that decision. Domiciling an insurer in Texas becomes more problematic if the carrier would not have access to the reinsurance markets available to its non-Texas competitors.

### Choice

Redpoint supports the Model Act because it neither imposes any mandate(s) on Texas domestic insurers nor eliminates any existing available reinsurance market. Each Texas company would retain its right to choose whether or not to use certified reinsurers. Thus, the Model Act simply expands the choices in the reinsurance market available to Texas companies.

### Financial Security

Finally, Redpoint supports the Model Act because it provides a mechanism for the stringent regulatory review and monitoring of every certified reinsurer by the Texas Commissioner of Insurance. We note that under the Model Act, the reduction of reinsurance collateral is not automatic but, subject to the discretion of the Texas Commissioner of Insurance. We further understand that the Commissioner's decision will be based on an analysis of the financial strength of each reinsurer as well as the regulatory strength of the jurisdiction(s) in which they are domiciled. Thus, the Model Act actually provides the Department of Insurance with additional tools to evaluate and regulate this market. Therefore, although the impetus for the legislation is from the NAIC, the practical administration of the law appropriately remains at the state level.

Currently Texas insurers may take credit for reinsurance recoverable from any reinsurance company admitted to do business in the state. Reinsurance through admitted carriers requires no collateral. Thus, permitting the use of the "certified

reinsurers” provides Texas carriers with an option to use reinsurers which although non-admitted, are financially stronger companies. Such additional financial strength is certainly a benefit to Texas insurers.

### Conclusion

Redpoint Insurance Group supports the Credit for Reinsurance Model Act because if adopted by the Texas Legislature, the legislation would: (i) grant Texas domestic insurers the same competitive advantage as non-Texas carriers; (ii) expand the choices available to Texas domestic carriers; and (iii) increase the financial strength of the reinsurance options available to Texas companies. For these reasons, Redpoint respectfully offers that by expanding the reinsurance market, the Model Act provides a more competitive insurance market and therefore, benefits Texas consumers.

We appreciate the opportunity to offer these comments to you. We are available to answer any questions or provide any information to the Committee.

Thank you,

/s/

Christopher A. McClellan  
President & CEO